PREFILED WRITTEN TESTIMONY
STUART F. SMITH, MANAGING DIRECTOR
CREDIT SUISSE FIRST BOSTON CORPORATION

This written testimony is submitted on behalf of CareFirst, Inc. ("CareFirst") in connection with a fairness opinion provided by Credit Suisse First Boston Corporation ("CSFB") to the Board of Directors of CareFirst. CSFB has provided ongoing financial advice to CareFirst since February 2000. The purpose of this testimony is to describe the process undertaken by CSFB in assisting the Board of Directors of CareFirst to evaluate the strategic alternatives available to CareFirst. During the course of this testimony, I will outline the methods CSFB relied on in evaluating the financial aspects of those alternatives and opining on the fairness from a financial point of view to the holders of CareFirst common stock immediately prior to the merger of the merger consideration to be received by such holders pursuant to the terms of the Agreement and Plan of Merger, dated as of November 20, 2001 by and among WellPoint Health Networks Inc. ("WellPoint"), CareFirst and Congress Acquisition Corp. A copy of our fairness opinion to the Board of Directors of CareFirst dated November 20, 2001 is attached to this testimony as Exhibit 1.

I. Background of CSFB

CSFB is a New York based, full service securities firm engaged in securities trading and brokerage activities as well as investment banking and financial advisory services, including a wide range of capital raising and merger and acquisition advisory services to clients in a broad range of industries. In 2001, CSFB's Health Care Group acted as financial advisor on 22 transactions totaling approximately $14 billion. Furthermore, CSFB has experience advising on Blue Cross Blue Shield acquisition, restructuring and conversion matters. CSFB has provided financial advice on the following managed care transactions:

- Advising Empire Blue Cross & Blue Shield of New York on its conversion to a for-profit company

- Advising the North Carolina Attorney General in connection with the for-profit conversion of Blue Cross Blue Shield of North Carolina.
- Advised The Missouri Foundation For Health on its monetization of its stake in RightCHOICE Managed Care
- Advised BlueCross & BlueShield United of Wisconsin on its conversion to a for-profit company
- Advised the Insurance Commissioner of the Commonwealth of Virginia on the demutualization and IPO of Trigon Healthcare
- Advised Mid-South Insurance Company on its sale to Trigon Healthcare
- Advised Highmark on its acquisition of Davis Vision
- Advised Anthem on a proposed merger with Blue Cross & Blue Shield of New Jersey
- Advised Anthem on its acquisition of BCBS of Connecticut
- Advised WellPoint on its acquisition of Cerulean
- Advised Oxford Health Plans on its restructuring and refinancing of its balance sheet

The CSFB Team That Advised CareFirst

I am a Managing Director of the CSFB Global Health Care Investment Banking Group. Prior to joining CSFB in 1999, I was a Managing Director of Alex. Brown & Sons, Inc. and its successor firms. I have been involved in structuring and negotiating numerous M&A transactions as well as effecting financings for clients across all sectors of the health care industry. I received a MBA from the Columbia Business School, a JD from the University of Connecticut School of Law and a BS from Franklin and Marshall College.

W. Patrick McMullan, III, is a Managing Director and Co-Head of CSFB's Global Health Care Investment Banking Group. He joined CSFB from Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), which CSFB acquired in November 2000, where he was a Managing Director and founder of DLJ's Health Care Group, with particular focus on health care services, managed care and medical distribution companies. With over 20 years of experience working with health care companies, Mr.

McMullan has completed numerous transactions. He has extensive experience in all types of equity financing, high yield debt, and mergers and acquisitions. Mr. McMullan received a MBA from the Wharton School of the University of Pennsylvania and a BA from Vanderbilt University.

Larry Lavine is a Managing Director of CSFB in the Mergers and Acquisitions Group. Mr. Lavine joined CSFB from DLJ, when it was acquired in November 2000. While at DLJ, Mr. Lavine was Vice Chairman of the firm's fairness and valuations committee and currently serves as a member of CSFB's Investment Banking Advisory Committee. Virtually all of Mr. Lavine's 25 years in the investment banking business have been spent advising clients in all aspects of M&A. Mr. Lavine received a MBA with highest distinction from the Harvard Business School and graduated *summa cum laude* from Northeastern University.

Benjamin Adams is a Director in CSFB's Global Health Care Investment Banking Group. He has participated in a wide range of transactions including public and private offerings of debt and equity and mergers and acquisitions. His focus areas include the overall health care services sector, with a particular focus on the managed care industry and the Blue Cross Blue Shield sector. Mr. Adams joined CSFB from DLJ, when it was acquired in November 2000, where he had been a member of the DLJ Health Care Group since 1996. Mr. Adams joined DLJ from CSFB where he began his investment banking career in the East Coast Industrial Group. Mr. Adams received a MBA with Honors from Columbia Business School and BA from Tufts University.

II. Summary of CSFB's Involvement

Following several months of preliminary advisory services, CSFB was retained by the Board of Directors of CareFirst in June 2000 to assist the Board in its evaluation of the strategic alternatives for CareFirst. CSFB first met with the Strategic Planning Committee (the "Committee") of the Board on June 1, 2000 to discuss preliminary observations regarding the current market position and future prospects of CareFirst, the competitive market environment in the health care industry in the Mid-Atlantic region, key drivers for future success, and an overview of the strategic opportunities available to

CareFirst. The Committee requested further analysis of the available opportunities. Among the opportunities considered for CareFirst were (i) remaining nonprofit, (ii) converting to a for-profit stock corporation and engaging in an IPO, and (iii) pursuing a strategic affiliation (as a nonprofit with another nonprofit entity) or merger transaction (after conversion to a for-profit corporation).

Regardless of the path pursued, the Strategic Planning Committee and the Board of Directors advised us that it was important that CareFirst remain Blue. We were advised by the Board that, because of the number of restrictions imposed by the Blue Cross & Blue Shield Association on the transfer of a Blue license, it would be virtually impossible for a non-Blue to acquire CareFirst and maintain the Blue license. Therefore, any transaction contemplated by CareFirst would necessarily involve a Blue plan.

On July 11, 2000, CSFB met with the Strategic Planning Committee and reviewed strategic alternatives, including whether to maintain a non-profit status quo. At that meeting, potential strategic partners for the various alternatives were discussed. The Committee requested an analysis of the "do-ability" of each transaction alternative. The Committee also requested that CSFB review recent nonprofit Blue conversions in other states and summarize various aspects of those transactions.

From July through November 2000, CSFB advised the Strategic Planning Committee as it pursued a strategic affiliation with Highmark, which is the nonprofit Blue of Pennsylvania. CSFB held a number of meetings with senior management of Highmark along with senior management of CareFirst and the Strategic Planning Committee. As part of its discussion, CSFB noted that an affiliation with Highmark, while it may have added certain economies of scale, would not provide significant access to capital, a key goal of the Strategic Planning Committee in its review of the available opportunities for CareFirst. Ultimately, it was decided by the Committee, with the advice of CSFB and others, that a strategic affiliation with Highmark did not address the needs of CareFirst.

As stated in Mr. Altobello's testimony, in early December 2000, the Board of Directors, upon the recommendation of the Strategic Planning Committee, terminated discussions with Highmark and turned its focus to Trigon and WellPoint, the large, national for-profit Blue plans that would provide CareFirst with access to the capital it needed to maintain its position in the health insurance market in the Mid-Atlantic region.[1] In order to secure the best possible deal for CareFirst, CSFB recommended, and both the Strategic Planning Committee and the Board of Directors agreed, that an arms' length bid process be undertaken. CSFB believes, in an environment of competition, that such an auction process tends to provide the best possible deal because it forces the interested parties to negotiate aggressively.

The Auction

In February 2001, following additional discussions with the Strategic Planning Committee and after preliminary due diligence on Trigon and WellPoint, on the instructions of the Board, CSFB distributed to each party a bidding procedures letter that set out the parameters of the bid process. The letter requested definitive proposals that addressed a number of key transaction issues including the price to be offered, the sources of financing, proposed method for protecting the absolute value of a non-cash component of the consideration (if any), a mark-up of a proposed merger agreement prepared by CareFirst, location of corporate headquarters, corporate name and branding, composition of the Board, continued role of existing directors of the Maryland, District of Columbia and Delaware operating subsidiaries, location of employees and facilities by state, commitment to CareFirst employees, continued relationships with CareFirst providers, continued service of existing CareFirst market segments, and a proposed timeline for consummation of the transaction.

Preliminary bids were received from the two potential candidates on March 2, 2001. Throughout March, the proposals were refined by the bidders. During this time, CSFB met with the Strategic Planning Committee to review side-by-side analyses of the two proposals. In each proposal, the Committee identified issues to be negotiated that would bring that proposal closer to the Committee's desired outcome. Throughout the spring, summer and early fall of 2001, negotiations continued with the two candidates.

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[1] In February 2001, the only two large, for-profit, publicly-traded Blue plans were WellPoint and Trigon. Anthem, Inc., which was also a large Blue plan, was still in the process of a demutualization in preparation for its initial public offering which occurred in October 2001. Given the complexity of its own regulatory process and the uncertainty of its access to capital, Anthem was not viewed as a viable strategic partner for CareFirst.

Additional operational and financial due diligence was performed on each candidate by CareFirst and by each candidate on CareFirst resulting in each candidate's proposal being revised and refined.

CSFB met with the Strategic Planning Committee on November 5, 2001 to review the revised proposals of the two candidates. Both proposals called for the conversion of CareFirst and its three nonprofit operating subsidiaries to for-profit status and the issuance of shares of CareFirst stock to certain tax-exempt foundations designated by the regulators in each of the jurisdictions in which the three operating subsidiaries are domiciled. Following the conversion, the candidate would acquire control of CareFirst through a merger of a subsidiary of the candidate with and into CareFirst, with the foundations receiving consideration in exchange for the shares of CareFirst common stock relinquished to the candidate. The key financial terms of each proposal were as follows.

WellPoint offered an aggregate consideration of $1.3 billion for CareFirst. The mix of consideration in the WellPoint purchase price proposal was cash in an amount not less than $450 million (35% of the aggregate purchase price) and WellPoint common stock with a value not more than $850 million (65% of the aggregate purchase price), with the option by WellPoint to increase the relative cash component up to 100% at closing. The WellPoint proposal provided that, in the event WellPoint's common stock price fell below $70 per share[2] (under the circumstances provided in the merger agreement), WellPoint had the right to calculate the number of shares to be issued for merger consideration as if WellPoint common stock were valued at $70 per share, and to make up the difference in merger consideration by issuing subordinated notes intended to trade at par. The WellPoint proposal provided customary registration rights so that the foundations could sell the stock immediately after closing in compliance with the securities laws.

Trigon offered an aggregate consideration of $1.3 billion for CareFirst. The mix of consideration in the Trigon purchase price proposal was $780 million in cash (60% of the aggregate price) and $520 million in Trigon common stock (40% of the aggregate

[2] On November 20, 2001, WellPoint's common stock closed at $119.36 per share. WellPoint's common stock has not closed below $70 per share since June 9, 2000.

price), although Trigon stated that it was flexible with respect to the mix of consideration. The Trigon proposal provided for a fixed price method to determine the $520 million stock component, subject to a maximum issuance of 10.4 million shares of Trigon stock. To the extent Trigon's stock price fell below $50 per share[3], the value of the stock component of the purchase price would be reduced. The Trigon proposal provided customary registration rights so that the foundations could sell the stock immediately after closing in compliance with the securities laws.

While the nominal value of the two proposals appeared equal, one significant difference between the WellPoint and Trigon proposals was the provision in the WellPoint proposal for downside value protection for the foundations in the event that WellPoint's common stock was below $70 per share at closing. Regardless of the mix of consideration, the WellPoint purchase price was fixed at $1.3 billion. By contrast, the Trigon purchase price assumed that Trigon would bear the risk of a decline in its stock price until the price declined to $50 per share, but that CareFirst and Trigon would share the impact of any decline thereafter. Thus if the Trigon stock price fell below $50 per share, so too did the aggregate purchase price for CareFirst decline. This lack of downside value protection for the foundations in the Trigon proposal created an uncertainty as to the purchase price because the holder of CareFirst common stock was to assume the risk that Trigon's stock may be worth less at closing than at the execution of a merger agreement. After analyzing the terms of each proposal and in light of the Board's objectives to ensure that the foundations receive a fixed amount of value at closing, CSFB advised the Strategic Planning Committee and the Board of Directors that WellPoint's proposal was the financially superior offer.

After considering the financial advice of CSFB and the advice of other advisors with respect to other terms in the two offers, the Strategic Planning Committee recommended the submission of the WellPoint proposal to the Board of Directors for final approval. On November 20, 2001, the Board of Directors of CareFirst met[4],

[3] On November 20, 2001, Trigon's common stock closed at $65.30 per share. Trigon's common stock has not closed below $50 per share since April 3, 2001.

[4] The Board of Directors of BCBSD, Inc. met on November 19, 2001 to consider the proposals and voted to accept the WellPoint proposal. The boards of CareFirst, CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. all met on November 20, 2001.

considered the alternative proposals, the recommendation of the Strategic Planning Committee and voted to enter into a definitive agreement with WellPoint.

CSFB Fairness Opinion

In connection with the proposed transaction, the Board of Directors of CareFirst requested that CSFB provide an opinion as to whether the merger consideration of $1.3 billion to be received by CareFirst stockholders in the WellPoint transaction was fair to the CareFirst stockholders from a financial point of view. In order to provide such an opinion, CSFB reviewed certain business and financial information relating to CareFirst and WellPoint, including:

- the Agreement and Plan of Merger by and among WellPoint Health Networks Inc., CareFirst, Inc. and Congress Acquisition Corp.
- audited and unaudited financial statements of CareFirst and its nonprofit and for-profit operating subsidiaries for the years ended December 31, 2000 and 1999 and the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001
- audited and unaudited financial statements of WellPoint (on a consolidated basis) for the years ended December 31, 2000 and 1999 and the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001
- certain financial information, including CareFirst projections for the six years ended December 31, 2006 provided by CareFirst management and WellPoint projections for the two years ended December 31, 2002 per Wall Street equity research

In addition to this data, we met with a number of members of CareFirst and WellPoint management to discuss the business, historical and projected financial results and prospects of each company.

Further, we considered certain financial data of CareFirst and financial and stock market data of WellPoint and compared those data with similar data for publicly held companies in businesses similar to CareFirst and WellPoint. We considered the financial terms of certain other business combinations and other transactions which have recently been effected. Finally, we considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

III. Overview of Valuation Methodologies

CSFB undertook three customary methodologies in valuing CareFirst: (i) comparable public companies analysis; (ii) comparable mergers & acquisitions transactions analysis; and (iii) discounted cash flow analysis. CSFB believes that these three valuation methodologies were the most appropriate methodologies for a valuation of CareFirst and we considered all three in preparing our fairness opinion for the Board of Directors of CareFirst.[5]

The preparation of a fairness opinion is a complex process and is not readily susceptible to partial analysis or summary description. Accordingly, CSFB believes that our analyses must be considered as a whole and that selecting portions of our analyses and factors, or the narrative descriptions of the analyses, could create a misleading or incomplete view of the processes underlying our analyses and opinion, including the assumptions, limitations and qualifications set forth in the written fairness opinion. *See* Exhibit 1.

Comparison of Selected Publicly Traded Companies

Comparable public companies analysis was used to determine the value of CareFirst by applying the trading multiples of comparable publicly traded managed care companies to the projected net income of CareFirst. Although no company is identical to CareFirst, for purposes of this analysis, we included five comparable non-Blue companies (Coventry Health Care, Inc., Health Net, Inc., Humana, Inc., Mid-Atlantic Medical Services, Inc. and Oxford Health Plans, Inc.) and three comparable Blue companies (Anthem, Inc., Trigon Healthcare, Inc. and WellPoint Health Networks Inc.). We chose not to include RightCHOICE Managed Care, Inc. as a comparable company because its trading multiples were skewed by virtue of being in a pending merger transaction with WellPoint. Additionally, we chose not to include Cobalt, Inc., the publicly-traded Wisconsin Blue Cross Blue Shield company, as a comparable company because the plan was too small to compare validly to CareFirst.

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[5] In each of these methodologies, we relied on publicly available market data and projections for the companies reviewed and did not undertake any independent appraisal of any company. In addition, we do not purport to predict the future value of CareFirst, WellPoint or any of the companies used in our analyses.

For each comparable company, we calculated the price to earnings ("P/E") ratio for 2001 and 2002. *See* Exhibit 2. For 2001, the non-Blue average P/E ratio was 14.3x while the Blue average P/E ratio was 16.0x. For 2002, the non-Blue average P/E ratio was 12.1x while the Blue average P/E ratio was 13.6x. Therefore, CSFB applied a reference range of 14.0x - 16.0x earnings for 2001 and 12.0x - 14.0x earnings for 2002.

CareFirst management provided CSFB with net income projections for 2001 and 2002. It is important to note that CSFB adjusted those projections to reflect a 38% effective tax rate, because the comparable trading multiples of the Blue and non-Blue companies are based on fully taxed net income projections, not the alternative minimum tax rate CareFirst currently enjoys as a nonprofit, non-stock corporation. Because a higher tax rate leads to a lower net income (and, in turn, a higher P/E multiple), CSFB believes applying fully taxed public company trading multiples to a CareFirst net income projection taxed at an alternate minimum tax rate would artificially inflate CareFirst's value by allowing CareFirst to simultaneously reap the benefits of both high company multiples and an augmented net income.

We applied the reference range of 14.0x - 16.0x 2001 earnings to a fully taxed CareFirst 2001 net income projection of $67.3 million to imply equity values of $1.012 billion - $1.147 billion, adjusted for the present value of the projected tax benefit of CareFirst's historical net operating losses. Additionally, we applied a reference range of 12.0x - 14.0x 2002 earnings to a fully taxed CareFirst 2002 net income projection of $80.4 million to imply equity values of $1.035 billion - $1.196 billion, adjusted for the present value of the projected tax benefit of CareFirst's historical net operating losses.

Comparison of Selected Merger and Acquisition Transactions

Comparable merger and acquisition transactions analysis was used to determine the value of CareFirst by comparing the multiples derived from comparable M&A transactions and adding the present value of the projected tax benefit of CareFirst's historical net operating losses. CSFB considered selected data from nine comparable M&A transactions that have been announced since January 1997. Several of these transactions involved acquisitions of financially distressed private companies or involved selected books of business from larger companies with limited financial disclosure. As a result, although not identical to the proposed CareFirst/WellPoint transaction, we determined that there were two transactions that were most relevant as comparables: the acquisition of Cerulean Companies by WellPoint and the pending acquisition of RightCHOICE Managed Care by WellPoint. CSFB believed that these two transactions were the most relevant comparables because the target companies were both Blue and both had a regional focus and size similar to CareFirst. In addition, the public disclosure of financial information with respect to these transactions enhanced the ability of CSFB to develop accurate metrics for comparison with the CareFirst/WellPoint transaction.

With respect to the then-pending RightCHOICE transaction, the enterprise purchase price was $1.356 billion, with an enterprise purchase price to LTM EBITDA ratio of 12.6x and an enterprise purchase price to LTM EBIT ratio of 15.8x.[6] The equity purchase price to LTM net income ratio was 24.7x and the equity purchase price to NTM net income ratio was 20.5x. With respect to the Cerulean transaction, the enterprise purchase price was $700 million, with an enterprise purchase price to LTM EBITDA ratio of 10.0x and an enterprise purchase price to LTM EBIT ratio of 12.1x. The equity purchase price to LTM net income ratio was 20.5x; the equity purchase price to NTM net income ratio was unavailable.

CSFB calculated the average of the RightCHOICE and Cerulean transaction multiples, discounted by 20% to establish the midpoint in the CSFB reference range in calculating the implied equity value of CareFirst.[7] In applying the 20% discount, CSFB considered the following factors:

→ CareFirst's private company status

→ uncertainty of conversion to for-profit, stock corporation structure

→ uncertainties associated with multi-jurisdictional approvals

→ extended duration of WellPoint's financial commitment

→ cost, time and effort to effect closure

→ WellPoint's extended exposure to an interloper without commensurate deal protection

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6 "LTM" means last twelve months. "EBITDA" means earnings before interest, taxes, depreciation and amortization. "EBIT" means earnings before interest and taxes. "NTM" means next twelve months.

7 Applying the 20% discount to the average of the transaction multiples resulted in a single multiple of approximately 9.5x, 11.5x, 19.0x and 15.0x, for LTM EBITDA, LTM EBIT, LTM net income and NTM net income, respectively.

Therefore, we applied the enterprise purchase price to LTM EBITDA ratio reference range of 8.5x – 10.5x to imply equity values of $1.289 billion - $1.580 billion and the enterprise purchase price to LTM EBIT ratio reference range of 10.5x – 12.5x to imply equity values of $1.171 billion to $1.384 billion. Similarly, we applied the equity purchase price to LTM net income ratio reference range of 18.0x – 20.0x to imply equity values of $1.294 billion to $1.431 billion and the equity purchase price to NTM net income ratio reference range of 14.0x – 16.0x to imply equity values of $1.166 billion to $1.323 billion. The implied equity value for CareFirst based on each of the aforementioned metrics were adjusted for the present value of the projected tax benefit of CareFirst's historical net operating losses. *See* Exhibit 3.

Discounted Cash Flow Analysis

A discounted cash flow analysis was used to determine an implied valuation range for CareFirst based on (i) the present value of the projected after tax free cash flows generated over a period of five years plus (ii) the estimated value of CareFirst's equity five years in the future (often referred to as a "terminal value"). CSFB's analysis was based on projected net income and free cash flow figures for the years 2001 through 2006 provided by CareFirst management. In determining the terminal value, CareFirst's adjusted 2006 projected net income was multiplied by a range of forward net income multiples ranging from 12.5x – 14.5x based on the multiples of comparable publicly-traded companies. The present value was determined by discounting the terminal value by 12-16% taking into account CareFirst's weighted average cost of capital. The present value of the terminal value was added to the present value of the future free cash flows to equate to the equity value. In addition, the present value of the future tax benefit of CareFirst's historical net operating losses was added to the equity value. This methodology yielded equity values ranging from $1.200 billion to $1.524 billion. *See* Exhibit 4.